

Message Text

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72

ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PA-04 USIA-15 PRS-01 DRC-01 /158 W

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R 170015Z AUG 74

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 3329

C O N F I D E N T I A L MEXICO 6990

E.O. 11652: GDS

TAGS: EFIN, MX

SUBJECT: CENTRAL BANK DIRECTOR GENERAL'S VIEWS
ON ECONOMIC SITUATION

PASS TREASURY & FEDERAL RESERVE

1. DURING COURTESY CALL BY CHARGE, E/COUNSELOR AND FINATT
ON BANK OF MEXICO DIRECTOR GENERAL, ERNESTO FERNANDEZ
HURTADO, LATTER EXPRESSED CONCERN OVER SHORT-TERM ECONOMIC
SITUATION.

2. ON DOMESTIC ECONOMY, FERNANDEZ HURTADO EMPHASIZED
IMPORTANCE OF MAINTAINING RATE OF INFLATION AT OR BELOW
THE U.S. RATE. HE THOUGHT MEXICO COULD SURVIVE A 20 PERCENT WAGE
SETTLEMENT ECONOMICALLY BECAUSE IT WOULD AFFECT A RELATIVE-
LY SMALL PERCENTAGE OF THE GROSS DOMESTIC PRODUCT, BUT THAT
AN INCREASE OF THIS MAGNITUDE WOULD HAVE A SERIOUS PSYCHO-
LOGICAL IMPACT. (THE LABOR UNIONS ARE ASKING FOR 35 PERCENTRM
HE WAS CONCERNED ABOUT THE LEVEL OF PUBLIC SPENDING, AND
COMPLAINED ABOUT HIS PROBLEMS IN CONDUCTING MONETARY
POLICY BECAUSE OF A CONTINUED HIGH LEVEL OF PUBLIC SECTOR
SPENDING. HE DID NOT, HOWEVER, CITE ANY FIGURES ON THE
SIZE OF THE DEFICIT.

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3. ON THE INTERNATIONAL SIDE, FERNANDEZ HURTADO NOTED THAT HIS RESERVES WERE PRESENTLY SLIGHTLY ABOVE THE SEPTEMBER '73 LEVEL WHICH WOULD IMPLY A DECLINE OF ABOUT \$450 MILLION FROM LEVEL AT END OF MARCH (\$1,547 MILLION) WHICH ARE LATEST FIGURES AVAILABLE TO EMBASSY. HE EXPRESSED CONCERN ABOUT THE PRESENT LEVEL OF RESERVES IN CONNECTION WITH SHORT-TERM CAPITAL MOVEMENTS WHICH HE SAID HAD BEEN VERY LARGE IN RECENT MONTHS, DUE IN PART TO HIGHER INTEREST RATES IN LONDON AND NEW YORK AND ALSO TO THE GENERAL STATE OF NERVOUSNESS ON INTERNATIONAL MONEY MARKETS.
BRANDIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, CENTRAL BANK, INFLATION
Control Number: n/a
Copy: SINGLE
Draft Date: 17 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MEXICO06990
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740226-0882
From: MEXICO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740839/aaaabgyh.tel
Line Count: 73
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUN 2002 by boyleja>; APPROVED <28 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CENTRAL BANK DIRECTOR GENERAL'S VIEWS ON ECONOMIC SITUATION
TAGS: EFIN, MX, (FERNANDEZ HURTADO, ERNESTO)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005